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Report Highlights:

Revisions since last year's report are mainly statistical updates. For the biotechnology sector the EU is approving new events but a significant number of local politicians are still strongly opposed to this new technology. With respect to the wine market, efforts are underway to create a new national wine quality seal for wines to reflect traditional wine making practices in Germany.

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Executive Summary

As a full member of the European Union (EU), all EU regulations fully apply to Germany. Germany's tariff system and agricultural market regimes are dictated by EU policies. Preferential trading agreements, such as with Mercosur, South Africa, ACP countries or the Everything-But-Arms agreement with least developed countries, are negotiated and implemented at the EU level. As one of the founders of the European Economic Community and as the strongest economic power within the EU, Germany is the largest net contributor to the European budget. Nearly 43 percent of the total net contribution to the European budget was covered by Germany in 2004. Other major net-contributors are the United Kingdom, Netherlands, Italy, and Belgium. It is Germany's long-term goal to lower its net contribution to balance the financial burden among European partner countries and to further harmonize European economic policies and trading rules. Germany has the longest borders with the new EU member countries Poland and the Czech Republic. As a result, Germany is the strongest supporter of integrating Central and Eastern European countries into the EU. So far, German agricultural exports into the new member states exceed imports from these countries. On the other side, German labor unionists and small businesses are concerned about the competition with low wages paid in the new EU member countries. Additionally, lower environmental and labor protection standards have the potential to make products from these countries considerably less expensive than those produced in Germany.

Germany is the world's largest trading nation but about 64 percent of its export trade is with other EU countries. Exports comprised about 35 percent of Germany's 2005 GDP of US\$ 2.785 trillion.

German agricultural imports, including forest products from the United States, in 2005 amounted to US\$ 1.67 billion. This accounts for 2.9 percent of total German agricultural imports. Major U.S. export items to Germany are soybeans, almonds, tobacco, wine and fish products. These products account for about 55 percent of U.S. agricultural exports to Germany. U.S. exports to Germany currently at risk are bulk commodities derived from biotech varieties because of labeling requirements for biotech foods and feed imposed in April 2004.

German exports of food and feed products are predominantly fully processed value added items. The leading group of products is dairy products, which accounts for about 14 percent of German agricultural exports. Exports of meat products accounted for 12 percent. Cocoa, bakery and candy account for another 15 percent. Tobacco products, coffee and tea and alcoholic beverages account for another 15 percent of German food exports. Major target regions are neighboring EU countries, which receive about 80 percent of all German agricultural exports. German exports to the United States have been rising steadily and surpassing the import volume from the United States for the first time in 2005, amounting to US\$ 1.9 billion in 2005 or nearly 3 percent of total food and feed exports. Despite the strength of the Euro, German wood products exports to the U.S. more than tripled over the past five years, amounting to an impressive US\$ 0.7 billion in 2005.

Germany's position on agricultural trade policy has changed over the past six years and is less supportive of trade liberalization. Germany is still a supporter of a smooth phase-in process of further liberalization but opposes the U.S. WTO proposal for the Doha Round. In contrast to the U.S. proposal, Germany demands that non-trade issues such as animal welfare, labor protection, and environmental standards be included in the Doha negotiation process. Germany strongly supported the comprehensive EU midterm agricultural policy reform of 2003. Germany implemented a far-reaching decoupling system of agricultural subsidies from actual production. It is in the process of implementing a system of single but regionalized area premiums, which will reach the highest level of decoupling within the EU-15 by 2012 (see GAIN report GM4009.) German politicians currently argue that there is hardly

any more room for further lowering of market access barriers. In their view, the EU has done enough to open their markets to third country competition. It is frequently pointed out that the Everything-But-Arms agreement with least developed countries provides more market access to the needy countries than offered by any other industrialized country.

Export subsidies for shipments outside the EU are managed and regulated by the various EU commodity regimes. Germany does not grant any additional export subsidies. To a limited extent, exports to non-EU countries are supported by market promotion activities of Germany's Central Market Promotion Agency for Agriculture (CMA) and the Wine Marketing Board. Both organizations are funded through mandatory check-off programs.

Agreement Compliance – World Trade Organization

Market Access

Germany applies the same tariffs as all other EU countries. Tariff rate quotas (TRQs) are administered by the EU. However, Germany is critical of some of the TRQs allowed for other member countries. For example, the TRQ for Spain and Portugal, to import 2.3 million tons of corn, sorghum, and specified non-grain feed ingredients, is frequently criticized by German corn millers. The millers argue that Spanish breakfast cereal manufacturers received an unfair competitive advantage over other European cereal manufacturers since Spain and Portugal can import corn at a reduced import duty rate. German cereal manufacturers would prefer to have the opportunity to participate in this regional TRQ. If the corn TRQ was made available to all members of the EU, U.S. corn suppliers could ship U.S. corn to the cereal and starch industry in other EU countries, assuming that the conflict with the EU on biotechnology is resolved.

The TRQ for fully milled rice resulting from the Austrian and Scandinavian accession to the EU has also been heavily criticized by German rice millers. They argue that U.S. rice millers received an unfair advantage over European millers. Market developments show that since implementation of the TRQ, imports of fully milled rice increased by about 10 thousand tons in 1998, at the expense of long grain husked rice. However, during the following years, imports of husked rice from the United States recovered to normal levels of slightly below 40,000 tons while imports of fully milled rice dropped again by about 4,000 tons. The TRQ helped to secure market access for U.S. long grain rice.

Sanitary and Phytosanitary Measures

The most prominent SPS measures affecting U.S. trade with Germany are U.S./EU issues. Ranking first is the politically motivated dislike of biotech food and feed products in Germany. The multi-year de facto moratorium on approvals of new biotech events has been lifted in 2004 and several biotech events have been approved since then. An ongoing dispute about coexistence of conventional, biotech and organic crop production hampers the planting of biotech crops in Germany, and may negatively influence the acceptance level of the general public for biotech-derived products. Nonetheless, the German Federal Ministry for Agriculture, Food and Consumer Protection repeated claim that 70 to 80 percent of the German population is opposing biotechnology in crop production is questionable. The new grand coalition government, in power since November 2005, appears to be more favorable to the commercial adoption of biotechnology. The new agricultural minister has repeatedly expressed his support for this technology. However, the current version of the German genetech law is viewed by the industry and by the conservative party politicians as a major hinderance for research and application of genetech. See GAIN reports GM4022, GM4023, GM4040, GM4051, GM5011. A revision of the genetech law including a new definition of the liability rules for biotech crops producing farmers and new rules for the biotech field register are likely to be negotiated during the second half of 2006.

Other major SPS issues affecting U.S. exports to Germany are the EU's ban on beef from hormone treated cattle and the use of chlorinated water as an antimicrobial treatment of poultry meat. Both measures block EU markets for U.S. meat and poultry products.

An issue of growing importance is the occasional mycotoxin presence in nuts, grains, and other food and feed crops. As a result of a generally increased public awareness level about health risks resulting from mycotoxin intake, the German food and feed processing industry is working on the implementation of quality assurance and documentation programs along the complete product chain. In 2002, the meat industry implemented a QS seal - Quality and Safety, see GM3006. Certification programs such as ISO 9000, HACCP, QC and QS are likely to become standard for the German food processing industry within the foreseeable future, see also NL0024, NL0037.

Export Subsidies

Export subsidies are harmonized within the EU. In Germany, the relevant product regimes are administered by the Bundesanstalt fuer Landwirtschaft und Ernaehrung (BLE, www.ble.de), which also pays the export subsidies.

Other assistances to Exporters

The German Central Marketing Promotion Agency for Agriculture (CMA) devotes only a relatively small portion of its budget to export promotion outside the EU. Its major focus is the domestic market and to an increasing extent the markets in other EU countries. The total CMA budget is estimated at US\$ 120 million. About 10 percent of the budget is earmarked for markets outside the EU, especially Eastern Europe and China. CMA manages twelve international marketing offices, four of which are in non-EU 25 countries. These four offices outside the EU are in Tokyo, Shanghai, Moscow, and Alexandria, VA. See also GM3044.

Domestic Support

EU and member state production support programs (CAP) are predominantly featured in EU agricultural product regimes. Additional special production enhancing programs are not administered in Germany. As result of the EU CAP reform of 2003, Germany decided to extensively decouple its CAP production support programs from actual production. For the expected impact of the EU CAP reform of June 2003 on German farm support see GM4009. In addition to these production related support schemes, the EU in cooperation with the member states supports a number of general programs aimed at improving agricultural production and marketing structures within member states. These programs are co-financed through the EU guarantee fund for agriculture and are discussed below.

The data in Table 1 represent German financial support for the individual program groups. About 61 percent are financed through the federal budget and 39 percent originate from Laender (state) budgets. Data in Table 1 only represent expenditures of the federal budget. Federal outlays in 2004 are supplemented by funds from the Laender budgets of about Euro 430 million.

The EU financial plan for agricultural support programs for the period 2000-2006 permits Germany to grant a total of Euro 2.6 billion annually to rural development, improvement of competitiveness, and environmental programs. Of this, Euro 1.38 billion comes from German federal and state budgets and Euro 1.22 billion from the EU budget. Table 1 shows

that Germany is not in the position to always make use of the maximum annual allotment since state budgets, which must provide matching funds, are very tight.

Applications for support are developed on the state (Laender) level and forwarded for approval to the EU Commission. Final control over the approved programs is with the EU Commission.

Table 1: German Agricultural Production & Marketing Structure Adjustment Programs - Million Euros

Type of Measure	2002	2003	2004	2005
Improvement of Agricultural Structures				
General Agric. Structure Improvement Programs	3.5			
Consolidation of Fragmented Holdings, Road Construct.	124.7	171.7	150.5	134.5
Rehabilitation of Villages	74.5			
Water Ways	98.2	114.7	88.3	97.7
Improvement of Production & Marketing Structures				
Investment Support for Individual Holdings	216.8	148.9	130.2	125.2
Market Structure Improvement	39.0	25.1	33.2	44.9
Sustainable Agriculture				
Support for Disadvantaged Regions	136.9	128.4	116.8	108.5
Market and Infrastructure Development	41.3	26.0	51.6	59.9
Forest Related Measures	39.9	25.9	30.4	37.1
Coastal Protection	78.4	80.5	65.5	66.2
Other	16.2	12.6	11.5	11.0
Total	869.4	733.8	678.0	685.0

Footnote: Program Expenditures for Improvement of Ag Structures in 2003 - 2005 are consolidated in one number

Source: German Food and Agriculture Policy Report 2006

Of special interest are **market structure improvement** programs for which the German budget data cannot be broken down by commodities. Available data only show financing volume by different commodity groups. These programs aim to improve the marketing structures and reduce marketing costs by forming special regional interest groups such as producer and marketing cooperatives. The focus of these programs is organic products and products marketed within or near the production region. Total expenditures in 2004 amounted to Euro 124.5 million of which Euro 52.3 million came from German federal and regional funds.

Table 2: Support for Market Structure Improvements by Sector in CY 2004 - Million Euros

Sector	German Co-Financing	EAGFL	Total
Dairy	21.0	37.2	58.2
Fruits & Vegetables	4.9	5.0	9.9
Livestock & Products	4.0	4.5	8.5
Poultry & Eggs	0.9	2.4	3.3
Grains	5.9	4.8	10.7
Potatoes	3.6	9.4	13.0
Flowers & Decorative Plants	0.7	1.5	2.2
Wines & Spirits	4.6	2.0	6.6
Other	4.4	2.1	6.5
Total	52.3	72.2	124.5

Source: German Food and Agriculture Policy Report 2006

The requirements for recipients of government support are extraordinarily complicated. Support is primarily targeted towards investment aimed at improving the market structure, marketing regionally produced and organic products, investing in cold or controlled storage including trucks, hiring extension services, improving environmental conditions, establishing quality enhancement systems and towards producer cooperatives. For this program, the EU covers 50 percent of the subsidy and the remaining 50 percent of the subsidy is shared in Germany by the federal budget (60 percent) and the Laender (states) (40 percent). For coastal protection programs the split between federal and Laender support is 70 percent versus 30 percent. In addition to the EU approved programs, the Laender have the option to further increase their subsidy level but this amount can vary from state to state. Support allocation is based on the regional agricultural structure and political objectives.

Aside from this program aimed at improving the market structure, Germany co-administers together with the EU a quite sizeable program for the **organic** sector. Farmers receive payments on a per hectare basis for the conversion to organic farming and after two years of conversion, permanent per hectare payments for their organic farms.

Payment levels are considerably different from state to state (see table above) depending on average soil fertility, financial ability to co-finance and political interest to support certain production technologies. The State of Bavaria grants the highest support for crop land, grassland and vegetable areas while Thuringen pays the highest premiums for permanent crops. The lowest premiums are paid in Mecklenburg-Vorpommern. Only two Laender - Baden-Wuerttemberg and Hamburg - imposed maximum payment limits of Euro 15,000 to Euro 40,000 per farm, all other states do not limit their support to organic farmers. Actually, the average farm structure in these two states is below the German average so that the maximum payment limits do not significantly affect organic farms. In addition to the co-financed direct producer support, Germany administers a special organic promotion program to educate the public about the supposed advantages of organic food production (Euro 20 million in CY 2004 and 2005). The program is likely to result in higher organic food production and increased consumer demand for organic foods.

Table 3: Basic Organic Production Support Program - Euro / Hectare				
	Crop land	Grassland	Vegetables	Permanent Crops
German Average				
Introduction Period	210	210	480	950
Permanent	160	160	300	770
Minimum				
Introduction Period	128	128	358	614
Permanent	102	102	179	511
Maximum				
Introduction Period	255	255	560	560
Permanent	255	255	560	560

Source: BMVEL, Federal Ministry of Agriculture, www.oekolandbau.de

Another special German federal incentive program aims to improve the **welfare of farm animals**. It supports the improvement of rearing conditions for laying hens by subsidizing up to 3 percent of the interest rate, for up to 20 years, for investment credits. The subsidized investment volume may not exceed 500,000 Euros per farm. The subsidy is granted for completely new investments as well as for the restructuring of existing operations. The subsidy is paid as a grant with discounted interest rates. The discounted grant may not exceed 30 percent of the investment volume. The remaining interest rate must be 2 percent or higher. As a precondition for the subsidy, the farmer must have a degree or training in agriculture. The program will run until December 31, 2006. In 2003, a total budget of Euro 50 million was made available but German farmers applied only for assistance of about Euro 31 million in 2003 and Euro 568,000 in 2004.

To assist vintners in meeting consumer demand in 2004/05, German vintners received Euro 12.7 million for an uprooting program of unwanted grape varieties and subsequent replanting with modern market-oriented varieties. The program is also offered in other EU countries. Under this program, 1,923 hectares were replanted with new grape varieties that are favored by customers. In addition, Euro 360,000 was paid for the distillation of 9,400 hl of German wine and 2,500 hl of French wine and 8,200 hl Spanish wine in German facilities. Euro 14.3 million subsidies were also granted for the use of 120,000 hl of rectified must concentrates. For the production of 27,000 hl of grape must vintners received another Euro 171,000.

The German government and the German wine industry were in opposition to the recently signed wine trade agreement between the United States and the European Union. As result of this opposition the German vintners – supported by a significant number of local politicians - are in the process of developing a national wine seal, which should distinguish German wines from imported. The core message of the new seal suggests that German wines are made according to traditional wine making practices in contrast to enological procedures applied in “New World ” countries.

For the support of **renewable resources** Germany launched various research and development programs. The annual budget of the German Renewable Resources Agency amounts to Euro 53 million. In addition to these research programs renewable fuels are exempted from gasoline taxes. However, discussions are underway to phase in fuel taxes also for renewables to avoid an unfair advantage of these fuels compared to fossil fuels.

In 2002, the German government decided to cut direct payments to its farmers by two percent and shift these free funds into regional agricultural support and marketing programs (**modulation**). The focus for these national support programs (EU support pillar II) is on:

1. Environment, nature, and animal welfare related quality production,
2. Market and infrastructure development; and,
3. Organic farming.

Following is a list of policy targets, which will yield public financial support through the modulation program.

Table 4: List of Supported Activities		
Activity	Target	Support
Crop diversification	Protection of biotic and abiotic resources	Premium Euro70/hectare States have the option to lower

	Improvement of soil fertility Diversification of narrow crop rotations	or increase the support payment by -30%/+20%
Winter greening of crop land	Reduction of nutrient run-off Improvement of organisms	Euro 90/hectare -30%/+20%
Mulch and direct seed	Improvement of soil fertility Avoid soil erosion and compaction Reduction of nutrient run-off	Euro 60/hectare -30%/+20%
Application of liquid manure with environment friendly technology	Reduction of harmful emissions Improvement of nutrient utilization Reduction of manure odor nuisance Reduce nitrogen input in non-agricultural ecosystems through air transport	max. Euro40/hectare max. Euro20/large animal unit -30%/+20%
Application of biological plant protection	Protection of biotic and abiotic resources Reduction of chemical use	varying from Euro 25 to Euro 160 per hectare -30%/+20%
Planting of blooming strips or fields	Protection of biotic and abiotic resources Improving of public understanding for agriculture	Euro 160/hectare for set-aside areas Euro 600/hectare for normal crop land -30%/+20%
Input reduction on grassland Extensification program	Sustainable agriculture Improvement of natural production conditions Site conform agriculture on river flooding fields	Base support Euro 130/hectare Conversion of crop land into grassland, Euro 310/hectare Conversion of crop land into grassland in flooding regions, Euro 410/hectare
Environment and animal welfare related rearing systems	Limiting cattle numbers per hectare Adjustment of production procedures to higher environment and animal welfare standards as demanded by customers Improvement of animal welfare	Support varies by type of rearing system and animal species from Euro 80 to Euro 410 per hectare -30%/+20%
Lowering of big animal units per hectare	Environment sensitive livestock production Improve environmental conditions in regions with intensive livestock production	Euro 250/hectare if the number of fattening hogs per hectare are lowered by one big animal unit Euro550/hectare if the number of breeding hogs per hectare are lowered by one big animal unit -30%/+20%
Source: BMVEL		

The size of modulation funds available to German rural regions is estimated at Euro 53 million in 2004 and 2005. In 2006, the modulation budget is forecast to rise to Euro 100 million, 150 million in 2007 and 185 million in 2008. About 11 percent of this money will be spent in traditional rye producing regions as a compensation for the abolishment of the EU rye intervention.

Trade Barrier Catalogue

Germany generally does not apply more stringent rules to imports than those existing in EU regulations. With respect to **genetically engineered foods and feeds (GE)**, the new German coalition government has indicated some changes in their position. Agricultural Minister Horst Seehofer various times publicly said that use of genetically engineered seeds should be possible under the premises of the EU regulations. However, also Minister Seehofer has realized that the public sensitivity level is still quite high and cannot be ignored.

The German government intends to amend the current version of the genetechnology law later in 2006. Major changes are expected with respect to the current stringent rules on liability, the field register for GE crops, and rules for placing GE products on the market. Current German regulations are viewed as being prohibitive for the technology.

Risk research programs to evaluate the chances for coexistence of organic, conventional, and GE crops have been performed during the past two years. Study results will hopefully influence government decisions about the development of good farming practice rules for GE crops. EU traceability and labeling regulations for GE products will continue to be problematic for U.S. producers and traders. The local food processing industry has to a large extent replaced soybean oil by other non-GE oils in recent years. Therefore hardly any properly labeled GE or GE containing products are found on German retail shelves.

The German government and the German agricultural industry remain strong opponents of **hormone usage** in beef production. Although there is no scientific evidence of health risks associated with using hormones, their main argument is: We don't want it! Industry and government experts argue that imports of beef from hormone treated cattle may have a negative effect on domestic demand for beef.

German health authorities also oppose the treatment of **poultry and other meats** with chlorinated water and classify such products as not being fit for human consumption. Chlorine is regarded as a cancer causing substance. They argue that anti-pathogen treatments should not substitute for normal hygienic processing procedures based on HACCP.

Reference Material

Table 5: German Leading Agricultural Imports from the United States - Million Euros

	2001	2002	2003	2004	2005
Fish Products	75,858	139,847	104,034	154,445	172,176
Almonds	109,034	114,741	145,286	205,470	297,407
Walnuts	23,621	28,944	32,235	54,823	39,817
Grapefruit / Citrus	12,298	12,520	15,867	13,883	11,101
Raisins	8,201	7,996	8,199	11,336	11,412
Prunes, Dried	25,595	24,277	26,979	24,739	16,336
Rice	26,071	27,908	22,641	24,570	21,200
Peanuts	11,700	34,174	11,413	5,660	1,649
Sunflower Seed	27,342	29,962	16,105	14,455	10,634
Wine	62,146	62,604	85,192	77,255	75,214
Bourbon Whiskey	59,984	59,895	73,684	89,626	86,062
Soybeans	293,069	332,755	528,652	405,381	212,998
Corn Gluten Feed	50,904	66,389	43,836	53,249	10,302
Tobacco	272,764	222,630	230,171	191,376	188,042
Decorative Greens	20,555	18,081	17,041	17,794	15,761
Pet Food	12,555	16,839	14,765	11,069	3,163
Roundwood	43,668	41,896	42,715	42,418	45,872
Lumber	40,187	32,839	37,181	45,150	43,331
Veneers	83,796	70,912	82,646	80,020	68,995
Cotton	17,952	14,067	16,828	14,591	9,902
Total Food + Feed	1,338,675	1,461,591	1,673,752	1,690,916	1,459,701
Total AgProds f. Indust Use	50,140	40,049	38,722	56,195	47,903
Total Wood Products	399,435	384,944	400,735	379,170	357,132
Grand Total	1,787,250	1,886,584	2,113,209	2,126,281	1,864,736

Source; German Federal Statistics Office

Table 6: German Leading Agricultural Exports to the United States - in Million Euros

	2001	2002	2003	2004	2005
Live Horses	35,114	29,403	41,397	43,582	65,749
Cheese	30,932	36,480	27,937	32,967	24,530
Fruits, excl. Tropical	4,676	13,020	20,451	20,515	9,464
Apple/Pear Juices	28,047	37,043	23,786	26,935	8,667
Cocoa Products	54,197	56,910	53,449	50,544	53,173
Candies	23,098	23,168	21,848	24,915	29,491
Bakery Products	38,571	38,101	61,143	69,655	71,762
Coffee	101,465	106,935	129,355	164,786	216,823
Hops	13,915	13,213	18,719	14,237	32,031
Beer	140,380	161,030	182,293	170,251	149,629
Liqueurs	37,800	44,328	91,881	129,180	155,417
Wine	38,104	47,015	74,868	82,739	99,324
Pet Food	38,565	32,761	36,621	34,079	28,735
Softwood Lumber	81,047	164,339	166,036	321,667	467,403
Veneers and Panels	144,399	172,374	163,540	256,759	270,724
Total Food + Feed	690,039	771,935	953,530	1,067,870	1,152,959

Total AgProds f. Indust Use	45,050	43,642	51,742	53,395	52,808
Total Wood Products	235,749	351,537	346,094	592,300	748,756
Grand Total	970,838	1,167,114	1,351,366	1,713,565	1,954,523

Source; German Federal Statistics Office